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SUBJECT: LOCKHEED-MARTIN/EMBRAER CONTRACT

1. (U) Brazilian newspapers, including a banner August 3 front page, above-the-fold headline in widely read O Estado de Sao Paulo, highlighted the Pentagon's selection of Lockheed-Martin -- teamed with Embraer and the Harris Corporation -- to develop and build the U.S. military's next generation airborne intelligence, surveillance and reconnaissance system, the Ariel Common Sensor (ACS). Embraer will provide the airframe based on its successful ERJ145/EMB 145 model already widely used around the world and build the airframe at a new assembly line at the old USN Cecil Field Air Station near Jacksonville, Florida. Newspapers here report the total package for the ACS as between USD 7 and 10 billion.

2. (U) The contract is being trumpeted in Brazilian media as a breakthrough achievement for Embraer, the world's fourth largest aircraft manufacturer. Embraer is already Brazil's largest single importer from (aircraft components) and exporter to (finished aircraft) the United States. Even with the involvement of Embraer's U.S. partners, the contract represents Brazil's most significant procurement opportunity ever with the U.S. military. It is also viewed as a shot in the arm for potential aircraft sales elsewhere.

3. (SBU) Comment: The ACS contract is a victory for Brazilian technology and Brazil's aerospace industry. Yet, while Embraer and Lockheed-Martin closely collaborated to develop the ACS, the two companies remain on opposing sides in Brazil's next generation jet fighter competition, the F-X (Note: Embraer is partnered exclusively with the Dassault Mirage bid in the competition.) A GOB decision on the F-X, delayed numerous times since 2002, continues to be in limbo due, many observers believe, to the sticker shock of the total cost of new high performance fighters. However, with the victory of the Lockheed-Martin/Embraer consortium in the ACS competition, Brazil's leadership may look with a fresh eye at used F-16 offers that are significantly cheaper than new fighters.

Danilovich